

Message Text

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SUBJECT: ECONOMIC COUNCIL SPOKESMAN URGES SELECTIVE ECONOMIC STIMULAT
ION

1. SUMMARY: IN FEB 22 SPEECH TO TORONTO SOCIETY OF FINANCIAL ANALYST
S,

GEORGE POST, VICE-CHAIRMAN OF ECONOMIC COUNCIL OF CANADA,
SAID THAT ALTHOUGH COUNCIL PERHAPS MORE OPTIMISTIC ABOUT CANADIAN
ECONOMIC PERFORMANCE THIS YEAR THAN OTHER ANALYSTS, IT AGREES
ON THE NECESSITY TO STIMULATE IN A NON-INFLATIONARY WAY AND ONE
THAT TAKES INTO ACCOUNT THE CONSTRAINTS AND DESIRABLE CHANGES
WHEN DETERMINING THE INTENSITY OF STIMULATIVE MEASURES.
DEMAND AND ESPECIALLY INVESTMENT EXPENDITURE MUST BE ENCOURAGED,
BUT AT THE SAME TIME POLICY MAKERS MUST NOT LOSE SIGHT OF

MEDIUM AND LONG TERM PROBLEMS. END SUMMARY.

2. POST NOTED THAT THERE IS "A SIGNIFICANT GAP" BETWEEN ACTUAL AND
POTENTIAL ECONOMIC PERFORMANCE. ACCORDING TO TRADITIONAL WISDOM,
NO - AT THE EARLY STAGES OF CYCLICAL RECOVERY - WOULD BE THE TIME
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FOR "RATHER STRONG" STIMULATIVE MEASURES. BUT THIS IS NOT A
TRADITIONAL CYCLICAL SITUATION, HENCE THE APPROACH SHOULD BE
"GRADUAL, SELECTIVE AND EXTENDED OVER TIME," BECAUSE TRADITIONAL
APPROACH WOULD CREATE RENEWED INFLATIONARY SPIRAL WHICH WOULD
BE COMPOUNDED BY DISMANTLING OF CONTROLS. STIMULATIVE MEASURES
SHOULD ALSO CONTRIBUTE TO SOLUTION OF THREE BASIC PROBLEMS:
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NEED TO REDUCE INFLATION AND END CONTROLS; NEED TO IMPROVE COMPETITIVE POSITION OF INDUSTRY; AND NEED TO CONSERVE AND EXPAND ENERGY RESOURCES.

EM PREFERRED MEANS TO STIMULATE WITHOUT RISK OF ACCELERATING INFLATION IS TAX RELIEF RATHER THAN INCREASED PUBLIC EXPENDITURES. TAX RELIEF WOULD ENCOURAGE INDIVIDUALS AND BUSINESS TO REFUSE WAGE PRICE EXPECTATIONS AND WOULD ALSO PROVIDE CORPORATIONS RELIEF FROM SITUATION WHERE INFLATION INORDINATELY INCREASES PAPER PROFITS AND THEREFORE TAXES.

4. STIMULATION OF INVESTMENT SHOULD ALSO BE SELECTIVE: ECONOMY SHOULD NOT BE BIASED "TOWARDS EXCESSIVE CAPITAL INTENSITY," FOR THAT IS NOT NECESSARILY A PANACEA. AS AN EXAMPLE, HE CITED A FINDING IN A COUNCIL STUDY CURRENTLY IN PROGRESS SHOWING THAT "BOTH THE AMOUNT OF CAPITAL STOCK PER WORKER AND THE AMOUNT OF CAPITAL PER UNIT OF OUTPUT ARE LOWER (UNDERLINED) IN ONTARIO THAN IN OTHER PROVINCES," ALTHOUGH ONTARIO IS WHERE INDUSTRY IS MOST EFFICIENT. CANADA SHOULD AVOID UNNECESSARY INVESTMENT - "CAPITAL IS STILL A SCARCITY RESOURCE IN THIS COUNTRY." INVESTMENT STIMULATION MUST BE IN ACCORD WITH LONGER TERM OBJECTIVES, WHICH IMPLIES NECESSITY OF "CLEARER" NATIONAL INDUSTRIAL STRATEGY.

5. ECONOMIC STIMULATION MEASURES SHOULD ALSO TAKE ENERGY SITUATION INTO ACCOUNT. ENERGY DEMAND MUST BE REDUCED, ONE MEANS BEING TO INCREASE PRICE OF OIL AND GAS FOR CANADIAN USERS. THIS SHOULD BE DONE WHILE AIB STILL IN PLACE AND WHILE MARGIN UNCLASSIFIED

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OF UNUSED CAPACITY STILL EXISTS.

6. COMMENTING ON DISPARITY BETWEEN OPTIMISTIC COUNCIL FORECAST FOR '77 COMPARED TO MORE PESSIMISTIC PREDICTIONS FROM OTHER GROUPS (MOST NOTICEABLE HHE CONFERENCE BOARD) HE ADMITTED THAT COUNCIL STAFF LESS OPTIMISTIC NOW THAN WHEN ITS FORECAST WAS WRITTEN, BUT PERHAPS STILL SOMEWHAT MORE SANGUINE THAN OTHERS. REASONS FOR DIFFERENCES INCLUDE: COUNCIL ASSUMPTION THAT PRICES WILL INCREASE AT A SLOWER RATE THAN OTHERS BELIEVE THAT REAL GOVERNMENT EXPENDITURES WILL INCREASE AT A GREATER RATE (NOTING THAT FEDERAL SPENDING ESTIMATES TABLED RECENTLY INDICATE THIS ASSUMPTION WAS NOT ENTIRELY ACCURATE); THAT GROWTH OF US ECONOMY WOULD BE GREATER THAN ASSUMED BY OTHERS; AND THAT COUNCIL'S MODEL ASSUMES APPROPRIATE RESPONSES BY FEDERAL AND PROVINCIAL GOVERNMENTS, WHILE OTHERS GENERALLY BASED ON ASSUMPTION THAT POLICIES WILL NOT CHANGE.

7. COMMENT: IN CITING THE SIMULTANEOUSLY STIMULATIVE AND NON-INFLATIONARY EFFECTS OF A TAX REDUCTION, POST SHOWS HIMSELF TO BE AT LEAST A PARTIAL SUPPORTER OF THE "CLARK GABLE SCHOOL"

OF ECONOMISTS ("THE MERCHANTS ARE GRUMBLING. GLARK GABLE MERELY
GRINS THAT FAMOUS GRIN, 'WHAT DO THEY MEAN THEY CAN'T PAY ANY
MORE TAXES? TSL 'EM TO PUT UP THE PRICE OF BEANS*") AS
OUTLINED IN THE NOVEMBER 15, '76 ISSUE OF FORBES MAGAZINE: THAT
TAXES AND OTHER COSTS INCURRED FOR "PUBLIC GOODS" ARE DIFFUSED INTO
THE
ECONOMY AS A WHOLE IN TERMS OF PRICES (AND WAGE) INCREASES, AND
THAT OUR INFLATIONARY PROBLEMS ARE LARGELY ATTRIBUTABLE TO THE
EXPLOSION OF SUCH COSTS IN RECENT YEARS.
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